

## FIFTEEN YEARS LATER - TELEFONICA IN BRAZIL

Within some fifteen years, Telefonica became the largest telecom and broadband operator in Brazil with over 91 million customers. Past years have been marked with some acquisition in the fixed line system (Telesp), the Speedy launch – the first broadband service in the Brazilian market – and the mobile operator Vivo full acquisition and commercial brand adoption. The new company created with Telefonica and Vivo merger has its operational strategy based on three pillars: quality, coverage and innovation.

Telefonica history in Brazil runs parallel and intertwines with two major facts for the country and the world. In Brazil, Telefonica landline operations started on 1998. On that same year, Brazilian government kicked-off the telecommunications sector restructuring and privatization initiative, opening a new era for the sector. Worldwide, the late 90's marks the beginning of the digital revolution enticed by the massification of the Internet. Privatization and the dizzying growth of the World Wide Web oriented Telefonica strategy for the largest country in Latin America. On 1998, Brazilians lived an anachronistic reality regarding telecommunications. Thirteen million people were expecting for a telephone line, which cost around \$ 1200 (official prices) and took an average of four years to be installed. There was a flourishing gray market for trading landlines. A telephone terminal

could reach \$ 5000 in affluent neighborhoods of São Paulo, Brazil's largest city. Telephone lines were assets declared to the IRS, and people could live out of renting them.

There were enormous challenges to face when Telefonica acquired the control of Telesp in a public bid, on July 1998, for \$ 5.7 billion. Telesp was a government owned enterprise responsible for the fixed line system in the State of São Paulo, the largest and wealthier one in country, currently with over 40 million inhabitants. Half million people were past due with their telephones' installation, and 5 million more was awaiting in line for their terminals. Efforts to universalize the fixed service was the focus of all the company's efforts at that time.

At the end of 1999, the total number of landlines installed in Sao Paulo reached 2 million – a staggering 680,000 surplus over the

target fixed by Anatel (the Brazilian regulatory public entity). On 2001, universal access was achieved in Sao Paulo. The number of telephones installed jumped from 6 million before privatization to 12 million.

### THE MOBILE STORY

In the same bid Telefonica bought Telesp, the company also purchased licenses to operate mobile telephony in the states of Rio de Janeiro, Espirito Santo and Sergipe. Those areas with mobile services, along with the State of São Paulo landline operation, constituted the birth of what would become, on 2011, Telefonica Brazil, the largest telecommunications and broadband company in the country, now with more than 90 million accesses nationwide.

Before that, however, a long and busy road had to be traveled. Besides universalizing the fixed service in Sao Paulo, Telefonica already envisioned the importance that the internet would have in the following years. That is why, on December 1999, Speedy was launched – the first broadband service in the Brazilian market, which arrived in the country at the same time as in Europe.

Just over two years later, Speedy already accounted for 282,000 users, with an annual growth rate close to 50%, an indication that, in the near future, internet connection would become the company's largest business.

On April 2003, an announcement shook up the Brazilian



### SANTIAGO FERNÁNDEZ VALBUENA IS CHAIRMAN AND CEO OF TELEFONICA LATINOAMERICA

Mr. Valbuena joined Telefónica on 1997 as CEO of Fonditel, the pensions and asset management fund of the Telefónica Group. From 2002 to 2010, he acted as the Group CFO. On 2010, he was nominated Chief Strategy Officer, overseeing the Group Strategy, Finance and Corporate Development. On September 2011, he was appointed Chairman and CEO of Telefónica Latinoamérica, Member of the Board of Telefónica S.A, his current position. Prior to joining Telefónica, Mr. Valbuena was Managing Director of Société Générale Valores and Head of Equities at Beta Capital, in Madrid. He has held teaching positions at Universidad Complutense and Instituto de Empresa (IE) in Madrid. Mr. Valbuena graduated in Economy at the Universidad Complutense in Madrid. He also has a PhD and Masters (MS) in Economics from Northeastern University (Boston, US).

telecommunications market. On that month, Telefonica and Portugal Telecom closed a deal to create Vivo, a joint venture already born a leader in the mobile market. Vivo embedded the operations of TCP (São Paulo), Tele Sudeste Celular (Bahia and Sergipe), Global Telecom (Paraná), CRT Celular (Rio Grande do Sul), Tele Leste Celular (Rio de Janeiro and Espirito Santo), NBT (some of the Northern states) and TCO (states in the Midwest). Now, in addition to the fixed service in São Paulo, with 12 million lines in service and 350,000 Speedy connections, Telefonica (along with Portugal Telecom) held the largest mobile operation in Brazil, with 17 million users.

The following years placed a challenge for Vivo. Its image was impacted due to a climbing

mobile line type of fraud (cloning). The system chosen by the company at that time was not prepared to prevent that type of fraud. Telefonica took a bold decision: to replace its entire network with the GSM system. One of the greatest engineering projects in telecommunications began on 2006, with the deployment of 6,992 GSM RBS (Radio Base Stations) in just six months --an unparalleled happening in the telecom world. The GSM network operation started on 2007, repositioning Vivo in the market as the operator with the best quality signal. Within months, the company sold more than 3.3 million GSM handsets, consolidating its leading position in the Brazilian market. On that same year, Telefonica bought TVA, a cable TV, enabling the triple play bundle offer to our clients.

Along 2008 and 2009, Vivo acquired the control of Telemig (a mobile operator in the State of Minas Gerais, the second largest in country in number of inhabitants) and licenses for the 1.9 GHz frequency. The new frequency was used to activate our network in the Northeast states, turning Telefonica into a national carrier, present in the whole country. Those moves have strengthened Vivo's position in the market --and the fixed business in Sao Paulo needed a major mobile operation to complement its client offer.

At the beginning of 2010, Telefonica SA started negotiations for the purchase of Portugal

Telecom stake at Vivo, culminating with a final deal on July. Telefonica became the largest telecom and broadband operator in Brazil, with over 85 million customers. On May 2011, after clearing all the necessary regulatory approvals, Telefonica SA announced the new managerial structure of Telefonica Brazil.

On April 2012, the Vivo brand was adopted by Telefonica in the market, following the group's global strategy, which uses a distinguished brand for its products and services in the 25 countries where it operates: Movistar (Spain and Latin America Spanish speaking countries), O2 (Europe, except Spain) and Vivo (Brazil). Vivo brand became one of the most valuable in the telecom market, winning several Top of Mind awards.

### TO BE A DIGITAL TELCO

The new company operational strategy is based on three pillars: quality, coverage and innovation. The company systematically achieves the best performance among nationwide operators in the monthly quality index from Anatel (regulatory entity). It also has the largest 3G and 4G coverage in the country, and it is present in more than 3100 cities in Brazil. Moreover, Telefonica continues to innovate: the fiber optic network in Sao Paulo for the residential market surpasses 1.8 million households covered, and new services --such as educational and mobile payment ones, among others- are being offered to our customers. As per



Current  
Telefonica  
Latam HQ

Marthiano's picture

June this year, Telefonica Brazil registered 91.1 million accesses around the country, 76.2 million being mobile customers and 14.9 million landline ones.

The increased demand for data, a global trend, is guiding Telefonica's next steps. It has led the company to make the decision, worldwide, to become a digital telco. Consolidate itself in the digital world, however, requires more than an excellent infrastructure connecting customers. You need to add value, creating new solutions that benefit the day-by-day work, study, leisure --the way people live--, broadening the company's presence in our clients' lives.

Telefonica Brazil, through Vivo brand, is offering solutions that put them ahead in the race to be the first digital telco country among the Group units. The company's portfolio comprises dozens of value added digital services. On 2012, they accounted for \$ 901 million in results --and they keep growing.

Education services already

gathers more than 6 million users. In addition, more than 2.5 million people acquired e-health and financial services of different natures. To establish itself as the country's first digital telco, Telefonica Brazil lays the foundation to maintain and extend its lead in the Brazilian market, where the company, in the last fifteen years has made investments of 183 billion reais, which shows the extent of the long term commitment the operator has with this country.

The relevance of Latin American operations for the group, as well as the importance of Brazil within this business unit, led the Telefonica Group to move Telefonica Latinoamerica headquarters from Madrid to Sao Paulo in early 2013. Telefonica is in the region for almost 25 years, present in 14 countries, with cumulative investments of 114 billion euros. Establishing our headquarters here was a natural decision, which we are sure, will lead us to a new growth path for years to come. ■